DIRECT TESTIMONY
OF
IRIS N. GRIFFIN

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OF
IRIS N. GRIFFIN
ON BEHALF OF
DOMINION ENERGY SOUTH CAROLINA, INC.
DOCKET NO. 2020-125-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Iris N. Griffin, and I am Vice President of Financial Management and Integration at Dominion Energy South Carolina ("DESC" or the "Company"). My business address is 400 Otarre Parkway, Cayce, South Carolina.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a Certified Public Accountant ("CPA") licensed in South Carolina, and I have a Master of Accountancy degree from the University of South Carolina. My undergraduate degree is also from the University of South Carolina. Prior to joining SCANA Corporation ("SCANA"), I worked with the accounting firms of Ernst & Young LLP and Scott McElveen, LLP. I joined SCANA as an auditor in 2003. Since that time, I have held various positions with the Company including Senior Accountant in the Rates and Regulatory Affairs Department; Manager of Investor Relations; and Audit Services, Privacy and Corporate Compliance Officer for SCANA. In 2016, I became Vice President of Finance and Treasurer. From 2018 to 2019, I served as Chief Financial Officer and Treasurer of SCANA. I assumed my current role in 2019.

Q. WHAT ARE YOUR DUTIES WITH DESC?

A. As Vice President of Financial Management and Integration, I am responsible for preparing and monitoring the financial budget for DESC and working with the Treasury, Accounting, Investor Relations teams, and others to formulate and implement a financial strategy for the Company. I am also responsible for the integration of the legacy SCANA enterprise into Dominion Energy, Inc. ("Dominion Energy"). Since the merger closed in January 2019, a team of individuals has worked with employees across the Company to capture merger synergies and align corporate policies and practices, as well as information technology. The integration is on track to be complete in January 2021.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION") BEFORE?

A. Yes.

Q. WHAT IS THE PURPOSE OF THE TESTIMONY YOU ARE PRESENTING IN THIS CASE?

A. In my testimony I will provide an overview of the rate request in this proceeding and discuss:

- The strengthening in the Company's financial situation since the closing of the acquisition of its parent, SCANA, by Dominion Energy;
- The current level of earnings and capital structure of DESC;
- An overview of certain principal drivers of the rate request;
- The Company's future financial plans and the anticipated capital expenditures; and
- The need and importance of the requested rate increase from the standpoint of the Company's ability to issue long-term debt and opportunity to earn a reasonable return on its investment in its retail electric system.

I. FINANCIAL DEVELOPMENTS SINCE THE MERGER

Q. AS PART OF THE MERGER, WHAT COMMITMENTS DID DOMINION ENERGY MAKE TO SUPPORT DESC'S FINANCIAL POSITION AND ACCESS TO CAPITAL?

A. As part of the merger, Dominion Energy committed to providing equity financing, as needed, to DESC with the intent of maintaining DESC's capital structure and credit metrics at a level that is supportive of strong investment-grade credit ratings for DESC. In the merger approval order, Order No. 2018-804, the merger commitment specified that the equity percentage should be within the range of 50% to 55%.

Q. HAS DOMINION ENERGY MET THOSE COMMITMENTS?

A. Yes, Dominion Energy has met those commitments. The support Dominion Energy has provided through equity financing and other means has allowed DESC to maintain a capital structure and credit metrics supportive of a strong investment-grade credit rating. So long as regulatory decisions by this Commission are seen by rating agencies and debt markets as reasonably aligned with conditions and expectations in the financial markets, DESC should continue to have access to capital on reasonable terms going forward.

Q. PLEASE EXPLAIN THE COMPANY'S FINANCIAL PRACTICES PRIOR TO THE MERGER.

A. Typically in the past, the Company issued short-term and long-term debt to support utility operations. The short-term debt took the form of commercial paper, which was backed by bank-issued credit facilities to ensure liquidity. As a backup to issuing commercial paper, the Company could also borrow directly from the credit facilities as long as both commercial paper and direct borrowings did not exceed the amount of the credit facility in total. The credit facilities also had covenants including a 70% debt to total capitalization test that could result in a default on the facility if breached. Breach of this covenant would have made any outstanding loans from, or backed by, the facility immediately payable with no ready means to make such repayment.

Historically, as the Company's short-term balances accumulated to a sizeable amount, the Company would convert that short-term debt to long-term debt by issuing first mortgage bonds. The bonds were secured by electric utility property, and proceeds from issuances would typically be used to pay down some or all of the outstanding short-term debt borrowings.

Q. HOW DID THESE PRACTICES AFFECT THE COMPANY'S FINANCIAL POSTURE AT THE TIME OF THE MERGER?

A. Prior to the merger, the financial condition of the Company was tenuous. Downgrades to DESC's credit ratings made it difficult for the Company to access commercial paper markets. This required the Company to use cash on hand to fund operations and required a reduction in operating and capital budgets in order to maintain availability of cash. The Company's financial challenges had resulted in the recognition of impairments of capital that significantly reduced the amount of collateral available for new first mortgage bonds and increased the ratio of debt to total capital.

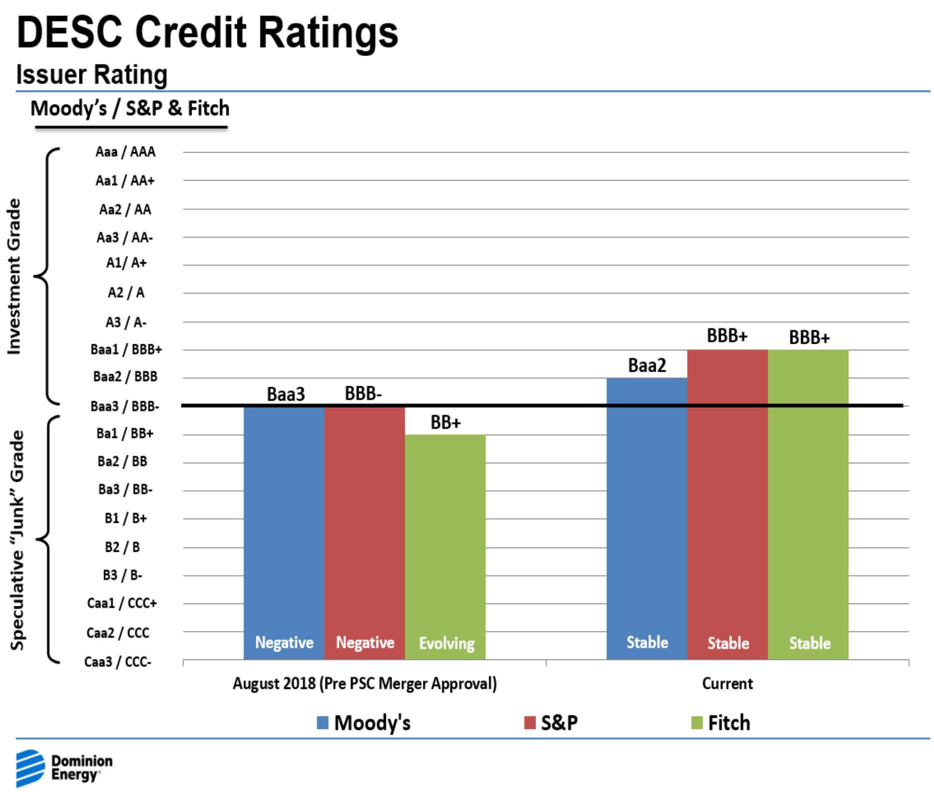
Prior to the merger, credit ratings had been downgraded, and the Company was on notice from the rating agencies that additional downgrades were possible. These possible downgrades could have put the Company's ability to access short- and long-term financial markets at risk, making it difficult or impossible to fund its operations.

Q. HOW DID THIS SITUATION CHANGE UPON APPROVAL OF THE MERGER?

A. Since the completion of the merger, the credit ratings and outlook improved at each of the three major credit rating agencies. **Graph A** summarizes the Company's ratings prior to and after approval of the merger.

(Graph A begins on the following page)

Graph A – Issuer Ratings



Q. WHAT HAVE DOMINION ENERGY AND DESC DONE SINCE THE MERGER TO PUT THE COMPANY ON A STABLE FINANCIAL FOOTING?

A. Since the merger, Dominion Energy and DESC have improved DESC's financial stability and credit metrics, while maintaining a capital structure that is consistent with existing regulatory guidelines and precedent. During 2019, DESC used cash on hand as well as additional cash provided by Dominion Energy through equity infusions and short-term intercompany borrowings to repay a total of $1.7 billion in long-term debt. The result of this liability management program brought DESC's balance sheet and credit metrics in line with strong investment-grade ratings as required.

Q. HOW HAVE THE RATING AGENCIES REACTED?

A. The rating agencies have expressed positive views on the financial stability of DESC as a result of the closing of the merger and actions taken by Dominion Energy and DESC. DESC was upgraded at Moody's to Baa2 from Baa3 on January 31, 2020, and at Fitch to BBB+ from BBB on May 29, 2020. According to the credit opinion report from Moody's, DESC's credit "is supported by…its new owner, Dominion Energy, Inc. which has provided stability for DESC's strategic direction since its January 2019 acquisition…."[1]

Q. HOW DO FINANCIAL ANALYSTS AND RATING AGENCIES SEE THE CURRENT PROCEEDING?

A. In evaluating the current proceeding, the three major credit rating agencies each emphasized the importance of regulatory relationships. Their initial concern centered around the commitment made as a formal Merger Condition not to seek rate relief before May 1, 2020. Moody's stated in 2019 that "[l]ower revenues from reduced rates through 2020 will materially weaken financial metrics."[2] But it also noted more positively the

[1] Moody's Investors Service Credit Opinion on Dominion Energy South Carolina, Inc. at 1 (Jan. 31, 2020).
[2] Moody's Investors Service Credit Opinion on South Carolina Electric & Gas Company at 2 (Jan. 3, 2019).

"[p]rospects for further financial improvement with an upcoming rate case filing."[3] Likewise, S&P Global noted the negative impact on the Company's financial posture of the agreement by the Company to "freeze retail electric base rates until Jan. 1, 2021" and observed that: "We will continue to monitor how Dominion manages the regulatory risks."[4] In 2020, Fitch wrote: "A favorable rate case outcome could result in further strengthening of credit metrics and may warrant an upgrade."[5]

The investment community views the rate case as very important. Wells Fargo sees the outcome of the current rate case as "a key data point on whether the commission is likely to be supportive of future investment initiatives."[6]

Q. WHY ARE THESE RATING AGENCY CONCERNS IMPORTANT TO CUSTOMERS?

A. These rating agency concerns are important to customers because the credit ratings have an important impact on DESC's cost of debt. DESC will continue to issue long-term debt to finance its investment in utility assets. A lower interest rate on that debt means lower costs to customers.

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[3] *Id.*
[4] S&P Global Ratings RatingsDirect on South Carolina Electric & Gas Co. at 5 (Mar. 10, 2020).
[5] *Fitch Affirms IDRs of Dominion Energy, Select Subs; Upgrades DESC and PSNC,* Fitch Ratings Rating Action Commentary, at 10 (May 29, 2020).
[6] Wells Fargo Securities, LLC Equity Research on Dominion Energy, Inc. at 2 (Aug. 30, 2019).

II. CURRENT CAPITAL STRUCTURE OF THE COMPANY

Q. WHAT IS THE CURRENT CAPITAL STRUCTURE OF THE COMPANY?

A. The proposed capital structure of the Company, as of May 30, 2020, is shown in **Chart A**, below.

Chart A – DESC Regulatory Capitalization Ratios for Electric Operations as of May 30, 2020

	Amount	Ratio	Embedded Costs	Weighted Average Cost of Capital
Long-Term Debt	$3,355,787,000	46.65%	6.46%	3.01%
Preferred Stock	$100,000	0.00%	0.00%	0.00%
Common Equity	$3,837,419,946	53.35%	10.25%	5.47%
Total Capitalization	$7,193,306,946	100.00%		8.48%

This capital structure is fully in line with the commitment made at the time of the merger to maintain financial metrics supportive of a strong, investment-grade credit for DESC and to maintain an equity component of the capital structure of between 50% to 55%.

III. INTEGRATION WITH DOMINION ENERGY

Q. PLEASE DESCRIBE HOW DESC HAS INTEGRATED WITH DOMINION ENERGY SINCE THE CLOSE OF THE MERGER.

A. Since the close of the merger, Dominion Energy has worked to thoroughly integrate DESC into its companies. As Company Witness Mr. Long will testify, efforts began with a thorough review of numerous functions to identify organizations, processes, systems and procedures. Teams evaluated similarities and differences, and where differences existed, they documented opportunities to adopt best practices for implementation. Some examples of integration activities that have been completed include the renaming and rebranding of the legacy SCANA companies, the adoption of Dominion Energy's Cyber Security practices, the updating of the Code of Conduct classifications to reflect the new organization, and an implementation of a matching gift program that enhances the ability of employees to support local charities of their choice. The Company has also adopted consistent diversity spending goals and completed contract consolidation for major vendors where possible. The Company has terminated the legacy SCANA credit facilities and integrated DESC into Dominion Energy credit facilities and has transitioned management of the Company's 401k to Voya to align with Dominion Energy.

In addition, from a human resources perspective, as Company Witnesses Mr. Blevins and Ms. Elbert testify, the Company has incorporated Dominion Energy's diversity and inclusion practices into daily practice, including the addition of several new Employee Resource Groups, requirements around diverse hiring panels and applicant pools and expanded internship programs and opportunities. The ethics and compliance programs have also been merged into one program focused around Dominion Energy's core values of Safety, Ethics, Excellence, Embracing Change, and One Dominion Energy.

Q. DO THESE EFFORTS INCLUDE INTEGRATION OF DESC'S INFORMATION TECHNOLOGY ("IT") SYSTEMS WITH DOMINION ENERGY?

A. Yes, efforts are also being made to integrate DESC's IT systems with Dominion Energy's. The Company has conducted a thorough analysis of corporate systems and processes in conjunction with Dominion Energy counterparts, and, as a result, it has developed a project plan that will lead to an integration of significant common systems where integration makes sense. We are nearing completion of an 18-month project to transition the Company's integrated Enterprise Resource Planning ("ERP") system from Peoplesoft to SAP. The project began with an analysis of the systems and processes for the two entities to identify where processes were consistent and where gaps existed. From there, a timeline was developed that will accommodate a cutover on January 1, 2021. This conversion will provide integrated purchasing, human resources, and financial functions across Dominion Energy. Similar processes are underway for various other smaller systems. These projects have varying deadlines that will ensure a smooth transition between companies.

Q. WHAT IS THE STATUS OF THE ENTERPRISE RESOURCE PLANNING ("ERP") CONVERSION?

A. Enterprise resource planning is a term used to describe the processes and software systems providing the necessary tools to run a business in the areas of Financial Management, Human Resources and Supply Chain, among others. The process to convert systems and combine with the Dominion Energy ERP platform started in 2019 and is an extremely complex technology conversion considering the amount of data and functions involved, the critical nature of many of those functions, and the number of legacy systems that must be incorporated. Despite the challenges associated with the COVID-19 pandemic, the plan remains on track to convert systems on January 1, 2021. The project is being led by South Carolina based employees and under my executive responsibility.

Q. HOW HAS INTEGRATION AFFECTED CYBER SECURITY OPERATION?

A. As the Commission is aware, protecting critical electrical and natural gas infrastructure from cyber security threats is a major imperative for the US utility industry. Like other utilities, DESC is subject to constant attempts by advanced persistent threat actors (in other words, foreign militaries) to breach our utility operating systems and establish a presence within our systems that they could exploit to disrupt the US economy in times of conflict. Dominion Energy serves large parts of Northern and Tidewater Virginia, which is the host to some of the nation's most important defense installations. Within the Dominion Energy companies, there is an extraordinary depth of knowledge and experience with cyber security issues and well-developed relationships with the defense community. As technology networks are consolidated under the Dominion Energy network, South Carolina is benefiting from the knowledge, skills, tools and relationships that Dominion Energy has developed. Talented security professionals from our South Carolina operation are gaining access to new tools, knowledge bases and peers. They are also gaining the opportunity to use their considerable skills and experience to assist with cyber security issues throughout the Dominion Energy footprint.

IV. OVERVIEW OF THE RATE REQUEST

Q. PLEASE PROVIDE THE COMMISSION WITH AN OVERVIEW OF DESC'S RATE INCREASE REQUEST IN THIS PROCEEDING.

A. In this proceeding, the Company seeks an increase in its retail electric rates of approximately $178 million based on a twelve-month test period which ended December 31, 2019 ("Test Year"). The test period in DESC's last electric rate proceeding, Docket No. 2012-218-E, closed on December

31, 2011. Since the close of the prior test period, DESC has invested a total of $3.2 billion, before considering depreciation and other offsets, in the assets required to provide the safe, reliable and economical delivery of electric service to customers. The effect of this investment on rate base has been partially offset by depreciation and other adjustments, but, nonetheless, it has resulted in an increase in the Company's net investment in rate base of approximately $906 million.

During the eight years since the close of the last test period, inflation, as measured by the US Department of Labor's Bureau of Labor Statistics Consumer Price Index, has increased costs in the US economy by approximately 14%. This inflation increases the Company's expenses for things like internal labor and the cost of contract labor for tree trimming, maintenance, and other activities that are necessary to operate a reliable system.

The Company has sought to offset these upward pressures on rates by reducing costs through carefully controlling costs, capturing efficiency gains, deploying technology to increase productivity and reduce costs, having voluntary reductions in its employee counts and capturing economies of scale available through the merger with Dominion Energy. The Tax Cuts and Jobs Act of 2019 has helped by reducing tax expense, although that reduction has already been passed directly to customers. While the efforts to reduce costs have been successful in limiting the degradation in the Company’s finances since 2011, continuing to absorb the additional costs of providing the safe, reliable and economical delivery of electric power to our customers is challenging. In the aggregate, these increased investments and expenses have reduced the Company’s Test Year pro-forma return on equity to 5.90%, as compared to the 10.25% return that the Commission authorized in Order No. 2012-951. A return on equity of 5.90% is financially unreasonable for an electric utility.

For these reasons, the Company is requesting a rate adjustment of $178 million to be effective for bills rendered on or after the first billing cycle of March 2021. The requested rate adjustment is calculated to allow the Company to recover its reasonable and necessary costs of providing retail electric service to its customers, recover its cost of debt associated with this service, and to give it the opportunity to earn a reasonable return on the equity component of its capital structure. The proposed rates reflect an overall rate increase of 7.75% over eight years or an average annual increase of less than 1%.

Q. DR. VANDER WEIDE TESTIFIES THAT THAT THE COMPANY’S COST OF EQUITY IS 10.4%, BUT THE COMPANY HAS APPLIED FOR A RETURN OF 10.25%. CAN YOU EXPLAIN THE DIFFERENCE?

A. The Company's actual cost of equity capital as determined by Dr. Vander Weide is 10.4%. However, the Company has decided not to ask for an increase in its allowed cost of equity in this proceeding but to request rates that allow it the opportunity to earn its currently-approved return on equity, which is 10.25%. This amount is within the lower end of the range of returns Dr. Vander Weide has determined to be just and reasonable, but it is clearly within that range. For that reason, it is a cost of equity that Dr. Vander Weide's testimony supports. It is also one that the Company believes can be sufficient within the context of an order that is otherwise viewed by the rating agencies and investment community as reasonable and supportive of the financial health of the Company.

The return on equity approved in this proceeding will be an important part of the financial community's assessment of the result in this case and will have a direct impact on the financial posture of the Company going forward. But of comparable importance both for the financial community and the Company may be how the Commission treats other issues, like the request for recovery of deferred amounts, the rate base treatment of those amounts and the recovery of other expense and amortization items. The decision on any of these issues can directly affect the Company's financial well-being and its standing in the markets where it issues debt. Within the context of an order that supports the financial health of the Company considering all of these issues, the Company believes that a return of equity of 10.25% can be sufficient.

V. <u>ANALYSIS OF KEY RATE CASE DRIVERS</u>

Q. IS IT POSSIBLE TO IDENTIFY THE CHANGES IN THE COMPANY'S FINANCES THAT HAVE RESULTED IN THE NEED FOR RATE ADJUSTMENTS AT THIS TIME?

A. Yes. But it is important to recognize that hundreds of expense, capital and revenue items are netted together to determine the Company's financial results in each period. These expense, capital, and revenue items can vary in opposing directions and can change in offsetting or compounding ways. The Company has offset increases in some items with reductions through cost control, efficiency improvements, staffing reductions and the like. These reductions are the result of changes, large and small, that are often spread across multiple accounts. For that reason, the sum of the increased items highlighted below will exceed the amount of the required rate adjustment. That is to be expected as a function of broad-based cost control.

Nonetheless, I can group and identify some of the principal changes in the Company's financial profile since the 2012 rate proceeding that have resulted in the need for the rate adjustments presented in this case. Other Company witnesses, including Mr. Blevins, Mr. Kissam, Mr. Coffer, and Mr. Kochems, testify in more detail about the specific projects, regulatory requirements and other drivers that have resulted in the changes in costs and investment that are summarized here.

A. Environmental, Reliability, and Load-Driven Investment

One group of cost drivers is related to the investments that the Company has made in its generation, transmission, and distribution systems to meet environmental, reliability, and load growth requirements. As Mr. Kissam testifies, since the close of the test period in the last proceeding, DESC has invested approximately $2.1 billion in safety, reliability, and efficiency improvements to its transmission and distribution systems. Since the close of the test period in the last proceeding, DESC has invested a total of $878 million in additional capital in safety, reliability, and efficiency improvements to its generation system. This amount does not include the initial investment in the Columbia Energy Center, which is not included in this rate request. DESC has also invested a total of $198 million in assets like information technology and software as well as fleet maintenance assets that are shared across the organization. This $198 million is the electric allocation of these Company-wide investments.

Altogether, the investments in electric assets since the last test period total $3.2 billion. After depreciation and other adjustments, the net increase in electric rate base since the close of the prior test period is $906 million, and the revenue requirement associated with this amount is $103 million.

B. **Other Expenses**

Other expense items have increased in areas where the Company has only limited control over its costs. Those items include the following:

1. The Company continues to be one of the largest taxpayers in the State of South Carolina and pays annual property taxes on its electric operations of approximately $200 million. Since 2011, the Company's bill for such taxes has increased by approximately 60%, or $75 million, due to increases in property tax rates and increased investments in electric property to serve customers.

2. The Company's continued investment in its plant, equipment, and other assets results in an associated increase in depreciation expense. Since the last rate proceeding, DESC's annual depreciation expense has increased by approximately $34 million. The Company is presenting a new depreciation study in this proceeding. That new study has determined that the current depreciation rates do not reflect the full cost of the value of the capital assets that are being consumed year-by-year to serve customers. New depreciation rates increase annual depreciation expense by approximately $7 million.

3. Health care costs in the United States continue to rise, and Federal requirements related to mandatory health care coverage have

expanded. Compared to the amounts recognized at the last rate proceeding, DESC's health care expenses have increased by approximately $10 million.

Together, costs in these difficult to control cost categories represent approximately $123 million in upward pressure on rates.

C. Items Deferred or Not Yet Recognized

As outlined in the Application, DESC has come to this Commission on a number of occasions since the issuance of Order No. 2012-951 to request orders allowing it to defer certain expenses benefitting customers for recovery in future rate proceedings. These deferrals have allowed the Company to invest in upgrades and improvements to its system that support safe, reliable and economical service for customers without creating immediate pressures for a rate case to recover the expenses associated with these investments.

Examples of items that have been deferred include:

1. Costs associated with transmission upgrades that have been placed in service to benefit customers.
2. Costs associated with complying with the North American Electric Reliability Corporation ("NERC") critical infrastructure program ("CIP-5") standards to protect non-nuclear assets from cyber-attack.

3. Costs associated with complying with the Nuclear Regulatory Commission ("NRC") cybersecurity regulations to protect V.C. Summer Unit 1 from cyber-attack.
4. Costs associated with requirements promulgated by the NRC to improve nuclear safety in response to the earthquake and tsunamis experienced at Tokyo Electric Power Company's Fukushima Daiichi Nuclear Power Station in Japan in March 2011.

The details of these deferred items and others are discussed in the testimony of Company Witnesses Mr. Kochems and Mr. Coffer. These items are all associated with valid utility expenses that have benefited customers and have been deferred in prior years so that rate proceedings to recover them could be deferred. Approximately $100 million of these deferred items are proposed for rate treatment in this proceeding. When netted with deferrals that are expiring, the amortization of deferred items and return on associated rate base results in a revenue requirement of just under $1 million.

D. <u>The Storm Damage Reserve</u>

As provided for in Order Nos. 1996-15, 2010-471, and 2012-951, storm response and restoration costs that exceeded $2.5 million annually have been deferred to a storm damage reserve account for future collection through rates. The current balance in the reserve is approximately $43.9

million. DESC proposes amortizing this amount into rates over five years, resulting in an amortization expense of approximately $8.78 million per year. The amount to be incorporated in the rate base at this time is approximately $26.36 million.

In addition to amortizing past balances, DESC is also proposing to reinstate the collection for the storm damage reserve going forward. Collections have been suspended since the effective date of Order No. 2010-471. The request is to reinstate collections at the five-year average storm damage cost. The resulting increase in revenue requirement from both of these adjustments totals approximately $21 million per year.

E. <u>The Vegetation Management Accrual Account</u>

The Company proposes to establish a vegetation management accrual account to provide a predictable basis for funding a multi-year vegetation management program. All vegetation management expenses would be recorded against that account, and an amount equal to the present projection of annual vegetation management expenses would be collected through rates to defray those expenses. Any excess in the account, positive or negative, would carry over year to year. During the test year, the Company spent approximately $24.10 million on vegetation management. Based on expected cutting cycles and current pricing information from contracts, the Company projects this amount to increase by $3.52 million over a five-year cutting cycle. This results in approximately $27.62 million being the amount of annual vegetation management expense that the Company requests to be reflected in rates. The increase above test year spending, however, is only $3.52 million.

F. The Turbine Maintenance Accrual

To reflect current estimates of annualized turbine maintenance expense, the Company must adjust its major maintenance accrual by approximately $10.6 million. The principal driver of the increase is the acquisition of the Columbia Energy Center combined cycle generating unit, which is being included in the accrual for the first time. In addition, increased reliance on the Company's combined cycle generation units has increased the turbine maintenance required.

Q. WHAT ACTIONS HAS DESC TAKEN TO REDUCE EXPENSES?

A. The Company has achieved merger synergies of approximately $45 million. These synergies relate to consolidation of certain corporate service functions, such as Corporate Secretary, alignment of policies and processes, and reduction in employee head count due to a voluntary retirement program. The Company has worked diligently to capture these savings for the benefit of customers, while not sacrificing customer service or creating large numbers of involuntary job losses in South Carolina. Company Witness Mr. Long will address these items in more detail.

Q. IN AGGREGATE, WHAT IS THE EFFECT OF THESE CHANGES IN EXPENSES AND INVESTMENT ON DESC'S FINANCES?

A. When all cost items are netted together, and offsetting items including increases in sales are considered, the result is that current rates do not permit DESC to earn a reasonable return on the capital invested in its electric system as the law requires. For this reason, the Company is requesting rates to be set at the level that will allow it the opportunity to earn \$178 million in additional revenue. This request is based on a return on equity of 10.25%. As mentioned above, the Company's Test Year pro-forma return on equity is only 5.90%, compared to an authorized level of 10.25%.

VI. <u>DESC'S CAPITAL NEEDS</u>

Q. WHAT ARE THE COMPANY'S CAPITAL NEEDS AT THIS TIME?

A. The Company expects to spend approximately \$700 million in capital per year going forward to maintain its electric system and service, to replace and update aging infrastructure and to meet the other capital requirements discussed in the testimony of Company Witnesses Mr. Blevins and Mr. Kissam. In the end, safety and reliability are not optional. Aging assets and equipment must be replaced before they fail. DESC must spend what is required to comply with emerging regulatory, security and environmental requirements. We must maintain the efficiency of our system and the integrity of our assets so that we can provide the safe, reliable and economical electric service that our customers and communities expect.

These projects will be funded through additional debt and equity. The Company will continue to take a balanced approach to that funding in order to support DESC's capital needs and to maintain a reasonable debt to equity ratio for DESC.

VII. EARNINGS PER SHARE

Q. IS DESC UNDER AN OBLIGATION TO SUGGEST AN ALTERNATIVE METRIC TO ITS HISTORICALLY REPORTED EARNINGS PER SHARE CALCULATION IN THIS PROCEEDING?

A. Yes. Historically, the Company has reported earnings per share ("EPS") in quarterly reports to the Commission filed pursuant to Order No. 17,648 dated May 30, 1974. Because all of the Company's shares were owned by SCANA Corporation, and because DESC comprised the majority of SCANA's consolidated operations, DESC historically computed earnings per share by dividing its earnings by the weighted average number of shares of outstanding common stock of SCANA.

In a letter dated March 17, 2020, the Company asked the Commission to eliminate the EPS reporting requirement, pointing out that the historical calculation would not be as meaningful since all of the shares of DESC are owned by Dominion Energy, and DESC does not comprise the majority of Dominion Energy's overall operations.

In Order No. 2020-384, the Commission denied the request to eliminate the requirement to report earnings per share of common stock until such time as DESC proposed, and the Commission accepted, an alternative metric. The Commission further ordered DESC to propose alternative metrics in this rate case.

Q. PURSUANT TO THIS ORDER, CAN DESC PROPOSE A MORE APPROPRIATE ALTERNATIVE METRIC?

A. The Company believes that a comparison of DESC's operating earnings as a percentage of Dominion Energy's consolidated operating earnings would provide the Commission with a clearer view of DESC's contribution to the Corporation's earnings. Dominion Energy uses operating earnings as the primary performance measurement of its earnings guidance and results for public communications with analysts and investors. Dominion Energy also uses operating earnings internally for budgeting, for reporting to the Board of Directors, for the company's incentive compensation plans and for its targeted dividend payouts and other purposes. Dominion Energy management believes operating earnings provide a more meaningful representation of the company's fundamental earnings power. Operating earnings are defined as reported GAAP earnings adjusted for certain items such as non-cash impairment charges, merger-related costs, non-recurring items, etc. These adjustments represent items that are often treated as "below-the-line" items or are otherwise removed from rate making consideration given their non-recurring nature. In addition, this alternative metric would eliminate the fluctuations in share count that could be caused by activities in other business segments. Therefore, the Company believes this operating earnings ratio would be more beneficial to the Commission and would propose it as the alternative metric to replace the previous EPS measure.

VIII. CONCLUSION

Q. IN CONCLUSION, WHAT ARE YOU REQUESTING THE COMMISSION TO DO IN THIS PROCEEDING?

A. My request is that the Commission recognize the importance of this case to the Company's ability to maintain financial health while investing approximately $700 million each year in capital to provide customers with the safe and reliable energy they have come to expect from DESC. I would also ask the Commission to recognize that Dominion Energy is meeting its finance-related merger commitments fully and that merger integration is proceeding in a positive and effective way. I would further ask the Commission to consider the fact that the analysis of the drivers of the revenue requirement that I have provided above shows that DESC has managed its overall utility operations effectively to mitigate the rate impact of increases in multiple cost and expense items. These items reflect necessary investments in DESC's electric system and operations and other costs over which it has limited control.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.